

January 25, 2023

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2107 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2107 is respectfully submitted to your committee.

Under current law, taxpayers filing as single, head of household, married filing separate, or married filing jointly are allowed to subtract the full amount of Social Security benefits from federal adjusted gross income for Kansas income tax purposes, if the taxpayer has income of \$75,000 or less. HB 2107 would exempt Social Security benefits from Kansas income taxes if the taxpayer has income of \$100,000 or less. The bill reduces the subtraction modification of Social Security benefits from federal adjusted gross income by a mathematical formula for incomes above the \$100,000 threshold and below \$120,000 for all taxpayers. This will allow taxpayers with income of \$100,000 up to \$120,000 to subtract a portion of Social Security benefits from federal adjusted gross income. The changes would go into effect beginning in tax year 2023.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$58,400,000)	(\$58,400,000)
Expenditure	--	--	\$36,530	\$36,530
FTE Pos.	--	--	--	--

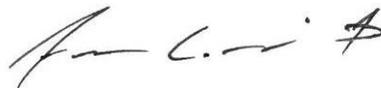
The Department of Revenue estimates that HB 2107 would decrease State General Fund revenues by \$58.5 million in FY 2024, \$46.5 million in FY 2025, and \$47.9 million in FY 2026. To formulate these estimates, the Department reviewed data on Social Security benefits from tax

year 2020. The Department adjusted the amount of Social Security benefits to account for cost-of-living adjustments that have occurred since tax year 2020 and used an average growth rate of 2.0 percent for future years. The Department created a simulated tax table for all taxpayers that receive Social Security benefits, showing that State General Fund revenues would decrease by \$44.7 million in tax year 2023 as a result of this bill. The individual income tax estimate for FY 2024 includes 100.0 percent of tax year 2023 tax liability and 30.0 percent of tax year 2024 tax liability. The individual income tax estimate for FY 2025 includes 70.0 percent of tax year 2024 tax liability and 30.0 percent of tax year 2025 tax liability.

The Department indicates that the bill would require \$36,530 from the State General Fund in FY 2024 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The fiscal effect associated with HB 2107 is partially reflected in *The FY 2024 Governor's Budget Report*. In *The FY 2024 Governor's Budget Report*, the Governor recommends smoothing out the social security cliff, so no Kansan making under \$100,000 pays full taxes on Social Security income, which is estimated to reduce State General Fund revenue by \$20.5 million in FY 2024, \$16.0 million in FY 2025, and \$16.1 million in FY 2026.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Tamara Emery, Department of Administration